

UNITED STATES BANKRUPTCY COURT  
SOUTHERN DISTRICT OF INDIANA  
NEW ALBANY DIVISION

IN RE:	)	Chapter 11
	)	
EASTERN LIVESTOCK CO., LLC,	)	Case No. 10-93904-BHL-11
	)	
Debtor.	)	Hon. Basil H. Lorch III

**MOTION TO APPROVE COMPROMISE AND SETTLEMENT  
WITH SUPERIOR LIVESTOCK AUCTION, INC., NOW KNOWN AS SLAI, INC.**

James A. Knauer, the Chapter 11 Trustee appointed in this case ("Bankruptcy Trustee"), by counsel, hereby files this motion (the "Settlement Motion") requesting the Court's approval of a compromise and settlement of claims (in the case styled as *James A. Knauer, as Trustee for All Persons Making Claims Against Capitol Indemnity Corp. Bond No. 785636 v. T. Harold Martin, et al.*, Case No. 4:11-cv-00144-SEB-WGH) ("District Court Case") between James A. Knauer, as Trustee for All Persons Making Claims Against Capitol Indemnity Corp. Bond No. 785636 (the "Bond Trustee") and Superior Livestock Auction, Inc., now known as SLAI, Inc. ("Superior Livestock") pursuant to the terms and conditions set forth in the Settlement Agreement and Release substantially in the form attached hereto as **Exhibit A** (the "Settlement Agreement"). In support of this Settlement Motion, the Trustee respectfully represents the following:

**Introduction and Background**

1. Under the Packers and Stockyard Act of 1921 ("P&S Act") [7 U.S.C. § 204] and its related regulations [9 C.F.R. § 201.29], cattle brokers such as the Debtor are required to maintain a Bond in an amount established by the statute and regulations to secure the performance of their obligations.

2. In compliance with this requirement, the Debtor obtained the Bond from Capitol Indemnity Corporation, originally issued on April 26, 2002, subsequently increased to the final

penal sum of \$875,000, and terminated effective December 30, 2010 (the "Bond"). This surety Bond provides financial protection to those who sold livestock to Eastern Livestock, and its designated clearees, under the provisions of the P&S Act.

3. As a result, the Bond Proceeds do not constitute property of the Debtor and are not included the Debtor's bankruptcy estate and thus outside the jurisdiction of this Court.

4. On November 2, 2010, the Debtor's bank began returning checks written on the Debtor's accounts and the Debtor was no longer performing its financial obligations as a livestock buyer. A notice of Eastern's default was issued by the USDA, and in the months that followed, 374 claimants (the "Claimants") filed various claims against the Bond totaling approximately \$37 million dollars, which vastly exceeds the Bond's \$875,000 final penal sum.

5. On January 14, 2011, the United States Department of Agriculture ("USDA") appointed Mr. Knauer to serve as trustee over the Bond Proceeds to disburse the Bond proceeds in accordance with the Bond instrument, separate and apart from his role as the Debtor's bankruptcy trustee in these proceedings.

6. In December 2011, Mr. Knauer filed the District Court Case in the nature of an interpleader, seeking a declaratory judgment to determine the validity, the priority (if any), and the pro rata share of Bond Proceeds for each claim made under the Bond.

7. Except for the bond claim filed by Superior Livestock, all other claims against the Bond have been finally adjudicated in the District Court Case.

8. Superior Livestock and Mr. Knauer, as Bond Trustee, have now reached a conditional settlement of Superior Livestock's bond claim; however, one of those terms requires Mr. Knauer, as the Debtor's Bankruptcy Trustee, to release certain potential claims that the

Debtor may have against certain individuals in exchange for a partial assignment of Superior Livestock's settled Bond Claim to the Debtor's bankruptcy estate.

9. For this reason, Mr. Knauer, as the Debtor's Bankruptcy Trustee, seeks this Court's approval of the settlement agreement that he has reached with Superior Livestock in his capacity as Bond Trustee to resolve Superior's bond claim.

### **THE PARTIES**

10. In addition to his role as the Bankruptcy Trustee, James A. Knauer is the designated trustee for all claimants under the Bond. By letter dated January 14, 2011, the Administrator for the U.S. Department of Agriculture's Grain Inspection, Packers and Stockyards Administration ("GIPSA") designated James A. Knauer as the trustee to represent all claimants under the Bond, as authorized by 9 C.F.R. § 201.32 and Condition (e) of the Bond. A copy of this letter of designation is attached as **Exhibit B**.

11. Superior Livestock Auction, Inc. now known as SLAI, Inc. ("Superior Livestock") is a Nevada corporation with its principal place of business in Colorado. Superior initially made a claim against the Bond in the amount of \$19,270,617.07, and later reduced that amount to \$13,519,939.48 (the "Superior Livestock Claim").

12. The claims of the remaining Claimants and all other Defendants named in the District Court Case have been finally adjudicated.

13. Based on his investigation, the Trustee has concluded that the Superior Livestock Claim against the Bond have a settlement value of \$3.6 million. If this claim amount is ultimately approved, Superior Livestock's pro rata share of the available Bond Proceeds would be 21.03%, resulting in a payout of approximately \$156,791.04.

14. To avoid the cost, expense, and delay of litigation, Superior Livestock is willing to accept payment of \$100,000.00 (the "Settlement Amount") in satisfaction of the Superior Livestock Claim and assign the balance of its bond claims proceeds to the Bankruptcy Trustee in exchange for the Bankruptcy Trustee releasing certain individuals from whom Superior Livestock collected the purchase price for cattle sold through the Debtor, all conditioned upon the Court entering a final, non-appealable order approving this Settlement Motion (the "Settlement Order").

### **THE SETTLEMENT**

15. The Trustee requests that the Court approve the compromise and settlement of claims between the Bankruptcy Trustee, the Bond Trustee, and Superior Livestock pursuant to the terms and conditions set forth in the Settlement Agreement. The Bankruptcy Trustee is seeking court approval of the Settlement Agreement with respect to the Debtor's release of certain claims and individuals in exchange for a partial assignment of Superior's bond, as more fully set forth therein.

### **BASIS FOR RELIEF**

16. Pursuant to Bankruptcy Rule 9019(a), this Court has authority to approve a compromise or settlement after notice and opportunity for a hearing. Under Bankruptcy Rule 9019, a bankruptcy court should approve a proposed compromise if it is fair and equitable and in the best interests of the estate. *Protective Comm. for Indep. Stockholders of TMT Trailer Ferry, Inc. v. Anderson*, 390 U.S. 414, 424 (1968); *In re Doctors Hosp. of Hyde Park, Inc.*, 474 F.3d 421, 426 (7th Cir. 2007). The Seventh Circuit has offered the following guidance to courts in making such determinations:

The linchpin of the "best interests of the estate" test is a comparison of the value of the settlement with the probable costs and benefits of litigating.

Among the factors the court considers are the litigation's probability of success, complexity, expense, inconvenience, and delay, "including the possibility that disapproving the settlement will cause wasting of assets."

*In re Doctors Hosp. of Hyde Park, Inc.*, 474 F.3d at 426 (citations omitted).

17. The Bankruptcy Trustee believes there is legal and factual support to object to the entirety of Superior's claims against the Bond. While the amount of \$3.6 million dollars representing the claim settlement amount is, in the opinion of the Trustee, more likely than not, allowable, the Trustee strongly believes the remaining portion of Superior's \$13.5 million dollar claim is highly likely to be disallowed. Thus the parties arrived at a principled settlement that each believes represents a fair allocation of the litigation settlement risks. Furthermore, most of the potential claims listed on Exhibit A that are being released have not been previously filed as adversary proceedings and would not likely be pursued by the Trustee, so the approximate \$56,000.00 in settlement funds, representing the Bond Claim proceeds assigned to the Bankruptcy Trustee by Superior Livestock, to the Bankruptcy estate are fair and adequate consideration as well as avoiding the costs, expense, delay, and uncertainties of litigation. Avoidance of the additional costs and expenses of litigation for the Bond Proceeds and the Bankruptcy Estate will eliminate the risk of further depletion of the Bankruptcy Estate and the Bond Proceeds. When evaluating the proposed settlement, the Trustee considered (i) the expenses the Bankruptcy Trustee would incur in litigating the Claims, (ii) the probability of success in prosecuting the Claims in light of the facts, circumstances, and anticipated defenses, and (iii) the best interests of the Bankruptcy Estate and the Debtor's creditors, and the Bond Proceeds and its claimants.

18. Pursuant to the exercise of his sound business judgment, the Bankruptcy Trustee believes that the compromise and settlement reflected in the proposed Settlement Agreement is fair and equitable and in the best interests of the estate.

19. Notice of this Settlement Motion will be provided to all creditors, the United States Trustee, all counsel of record, and any other entity that the Court may direct, as provided in Bankruptcy Rules 2002 and 9019.

**WHEREFORE**, if no objections to this Settlement Motion are filed, the Parties request that the Court enter the Settlement Order approving the Settlement Agreement. A proposed form of order is attached as **Exhibit C**. If any objections to this Settlement Motion are filed, the parties request that this Settlement Motion and any timely filed objection be scheduled for hearing by the Court on the earliest date that is available and convenient to the Court. The Trustee requests that any notice of this motion include language that any objection to this Settlement Motion set forth with specificity any claim that the objecting party has to the Settlement Amount.

Respectfully submitted,

FAEGRE BAKER DANIELS LLP

By: /s/ Terry E. Hall

*Counsel for James A. Knauer, Chapter 11 Trustee*

Terry E. Hall (#22041-49)  
Kevin M. Toner (#11343-49)  
Harmony Mappes(#27237-49)  
Dustin R. DeNeal (#27535-49)  
300 N. Meridian Street, Suite 2700  
Indianapolis, IN 46204-1782  
Telephone: (317) 237-0300  
Facsimile: (317) 237-1000  
kevin.toner@faegrebd.com  
terry.hall@faegrebd.com  
harmony.mappes@faegrebd.com  
dustin.deneal@faegrebd.com

Wendy W. Ponader (#14633-49)  
600 East 96th Street, Suite 600  
Indianapolis, IN 46240  
Telephone: (317) 569-9600  
Facsimile: (317) 569-4800  
wendy.ponader@faegrebd.com

**CERTIFICATE OF SERVICE**

I hereby certify that on January 13, 2014, a copy of the foregoing pleading was filed electronically. Notice of this filing will be sent to the following parties through the Court's Electronic Case Filing System. Parties may access this filing through the Court's system.

David L. Abt  
davidabt@mwt.net

Mark A. Robinson  
mrobinson@vhlaw.com

Randall D. LaTour  
rdlatour@vorys.com

Daniel J. Donnellon  
ddonnellon@ficlaw.com

John W. Ames  
james@bgdlegal.com

Jeremy S Rogers  
Jeremy.Rogers@dinslaw.com

Meredith R. Thomas  
mthomas@daleeke.com

Charles R. Wharton  
Charles.R.Wharton@usdoj.gov

David L. LeBas  
dlebas@namanhowell.com

Suzanne M Shehan  
suzanne.shehan@kutakrock.com

Laura Day Delcotto  
ldelcotto@dlgfir.com

Ross A. Plourde  
ross.plourde@mcafeetaft.com

Todd J. Johnston  
tjohnston@mcjllp.com

Karen L. Lobring  
lobring@msn.com

Elliott D. Levin  
edl@rubin-levin.net

C. R. Bowles, Jr  
cbowles@bgdlegal.com

Jeffrey R. Erler  
jerler@ghjhlaw.com

John R. Carr, III  
jrciii@acs-law.com

Stephen A. Weigand  
sweigand@ficlaw.com

Robert Hughes Foree  
robertforee@bellsouth.net

Ivana B. Shallcross  
ishallcross@bgdlegal.com

William Robert Meyer, II  
rmeyer@stites.com

James Bryan Johnston  
bjtexas59@hotmail.com

Judy Hamilton Morse  
judy.morse@crowedunlevy.com

John Huffaker  
john.huffaker@sprouselaw.com

Kelly Greene McConnell  
lisahughes@givenspursley.com

Walter Scott Newbern  
wsnewbern@msn.com

Timothy T. Pridmore  
tpridmore@mcjllp.com

Sandra D. Freeburger  
sfreeburger@dsf-atty.com

John M. Rogers  
johnr@rubin-levin.net

John Hunt Lovell  
john@lovell-law.net

Edward M King  
tking@fbtlaw.com

Bret S. Clement  
bclement@acs-law.com

John Frederick Massouh  
john.massouh@sprouselaw.com

Kim Martin Lewis  
kim.lewis@dinslaw.com

Deborah Caruso  
dcaruso@daleeke.com

Allen Morris  
amorris@stites.com

James T. Young  
james@rubin-levin.net

John M. Thompson  
john.thompson@crowedunlevy.com

Matthew J. Ochs  
kim.maynes@moyewwhite.com

Andrew James Vandiver  
avandiver@aswdlaw.com

Kirk Crutcher  
kcrutcher@mcs-law.com

Theodore A Konstantinopoulos  
ndohbky@jbandr.com

Lisa Koch Bryant  
courtmail@fbhlaw.net

John David Hoover  
jdhoover@hooverhull.com

Sean T. White  
swhite@hooverhull.com

Michael W. McClain  
mike@kentuckytrial.com

James Edwin McGhee  
mcghee@derbycitylaw.com

Amanda Dalton Stafford  
ads@kgirlaw.com

David Alan Domina  
dad@dominalaw.com

Jill Zengler Julian  
Jill.Julian@usdoj.gov

Michael Wayne Oyler  
moyler@rwsvlaw.com

James E. Rossow  
jim@rubin-levin.net

Steven A. Brehm  
sbrehm@bgdlegal.com

Patrick B Griffin  
pat.griffin@kutackrock.com

Shawna M. Eikenberry  
shawna.eikenberry@faegrebd.com

James A. Knauer  
jak@kgirlaw.com

Jessica Lynn Olsheski  
jessica.olsheski@justice-law.net

Nicole R. Sadowski  
nsadowski@thbklaw.com

Joseph H. Rogers  
jrogers@millerdollarhide.com

Andrew D. Stosberg  
astosberg@lloydmc.com

Christopher M. Trapp  
ctrapp@rubin-levin.net

Jennifer Watt  
jwatt@kgirlaw.com

William K. Flynn  
wkflynn@strausstroy.com

Michael Benton Willey  
michael.willey@ag.tn.gov

Chrisandrea L. Turner  
clturner@stites.com

Scott R. Leisz  
sleisz@bgdlegal.com

Terrill K. Moffett  
kendalcantrell@moffettlaw.com

Matthew Daniel Neumann  
mneumann@hhclaw.com

Jay P. Kennedy  
jpk@kgirlaw.com

William E Smith  
wsmith@k-glaw.com

Thomas C Scherer  
tscherer@bgdlegal.com

Matthew R. Strzynski  
mstrzynski@kdlegal.com

Kent A Britt  
kabritt@vorys.com

Jeffrey L Hunter  
jeff.hunter@usdoj.gov

Jason W. Cottrell  
jwc@stuartlaw.com

James B. Lind  
jblind@vorys.com

Anthony G. Raluy  
traluy@fbhlaw.net

Jack S. Dawson  
jdawson@millerdollarhide.com

Terry E. Hall  
terry.hall@faegrebd.com

Erick P. Knoblock  
eknoblock@daleeke.com

Shiv Ghuman O'Neill  
shiv.oneill@faegrebd.com

Eric C. Redman  
ksmith@redmanludwig.com

James E. Smith  
jsmith@smithakins.com

Kevin M. Toner  
kevin.toner@faegrebd.com

Eric W. Richardson  
ewrichardson@vorys.com

Joe Lee Brown  
Joe.Brown@Hardincounty.biz

Thomas P. Glass  
tpglass@strausstroy.com

Kay Dee Baird  
kbaird@kdlegal.com

Paul M. Hoffman  
phoffmann@stinson.com

Brian H. Meldrum  
bmeldrum@stites.com

Natalie Donahue Montell  
nmontell@bgdlegal.com

Brian Robert Pollock  
bpollock@stites.com

John R. Burns  
john.burns@faegrebd.com

Kayla D. Britton  
kayla.britton@faegrebd.com

David A. Laird  
david.laird@moyewhite.com

Trevor L. Earl  
tearl@rwsvlaw.com

Joshua N. Stine  
kabritt@vorys.com

Amelia Martin Adams  
aadams@dlgfirm.com

Robert A. Bell  
rabell@vorys.com

Melissa S. Giberson  
msgiberson@vorys.com

U.S. Trustee  
ustpreion10.in.ecf@usdoj.gov

Dustin R. DeNeal  
dustin.deneal@faegrebd.com

Jay Jaffe  
jay.jaffe@faegrebd.com

Harmony A. Mappes  
harmony.mappes@faegrebd.com

Wendy W. Ponader  
wendy.ponader@faegrebd.com

Joe T. Roberts  
jratty@windstream.net

Christopher E. Baker  
cbaker@thbklaw.com

Andrea L. Wasson  
andrea@wassonthornhill.com

Joshua Elliott Clubb  
joshclubb@gmail.com

Ben T. Caughey  
ben.caughey@icemiller.com

Stephen E. Schilling  
seschilling@strausstroy.com

David W. Brangers  
dbrangers@lawyer.com

Martha R. Lehman  
mlehman@kdlegal.com

Kevin J. Mitchell  
kevin.mitchell@faegrebd.com

Erin Casey Nave  
enave@taftlaw.com

Steven Eric Runyan  
ser@kgirlaw.com



Chad Duane Wuertz  
chad@wuertzlaw.com

/s/ Terry E. Hall